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OKEA

Q1 2022

QUARTR

MODULAR FINANCE

Speakers

Birte Norheim
CFO | OKEA

John Olaisen
Head of Research | ABG

Operator

Svein J. Liknes
CEO | OKEA

Teodor Nilsen
Equity Research Analyst | SB1 Markets

Prepared Remarks

Svein J. Liknes
CEO | OKEA

Good morning, and welcome to the first quarter of 2022 presentation from OKEA. My name is Svein J. Liknes, and I'm the CEO of OKEA. As usual, I have my CFO with me, Birte Norheim, who will take you through the financial details after my operational update. There will be a Q&A session thereafter, but you can also ask questions in writing using the link on this presentation. What has dominated the first quarter of 2022? Obviously, it's hard not to mention the crisis we have seen in Europe and the invasion in Ukraine. This has dominated the commodity prices and also the discussion of energy supply and the security of that is also then back on the agenda again.

Svein J. Liknes
CEO | OKEA

Back to the details on Q1 for OKEA, we had a production of 14,908 barrels of oil per day, which is about 1,100 barrels down compared to the last quarter, mainly due to Gjøa had a planned shutdown to tie in Duva and Nova fields. We also had a blackout on Draugen, which lasted for three to four days, which also had a minor contribution. I'll get back to that when I go through the assets in more detail thereafter. We have also been waiting for the Yme ramp up to be more steep, and we did have a shutdown during Easter as we saw a small oil leak on the water.

Svein J. Liknes
CEO | OKEA

The operator took the right decision to close production, and they have now identified the leak, and they also have a repair solution, and we are about to start up during these days, this week. During the quarter as well, the financial position of OKEA strengthened further, and as you can see, we had operating income in excess of NOK 1.5 billion. As you can see here as well, the cash balance increased with NOK 431 million, in addition to a bond buyback of NOK 289 million. Q1, again, has positioned OKEA to execute and deliver on our strategy, which is a strong growth strategy. We do have an operating position and also a financial position that enables this.

Svein J. Liknes
CEO | OKEA

We are maintaining the production guidance that we gave last time of 18,500 to 20,000, although it will be in the lower range of this because of the delayed production ramp-up from Yme, but we are still believing that we are able to achieve this guidance, and we will get back to that later on and keep the market updated on it. We have completed the acquisition of the 2.223% of Neptune's share in Ivar Aasen. So that was concluded during the quarter. We had a discovery in the Hamlet, which is tied back to the Gjøa asset, and so we are now working together with the partners and the operator how to commercialize this discovery and have a project back to Gjøa.

Svein J. Liknes
CEO | OKEA

We are also progressing the Hasselmus gas project to Draugen, which was sanctioned last year, and I will get back to that as well a bit more detail when I go through the assets. Very volatile prices, commodity prices during the quarter. Again, I would like to reiterate that we are still on very high levels. As we said last year when we also launched our strategy, we believe in strong commodity pricing going forward. The energy crisis that we saw even before the Ukraine war was that we have a very fragile balance on the energy supply and demand in Europe. We think that will continue.

Svein J. Liknes
CEO | OKEA

The Norwegian position in this in the role of OKEA as well, and the Norwegian position on this is to secure energy supply to Europe in a reliable and safe way for the future. OKEA will take its part in that. Production volumes as I just mentioned, production was just short of 15,000, and you can see the distribution here. We went down a bit on Gjøa due to the planned shutdown to tie in, and we are being compensated in kind for this at later stage, the most of it. We also had a small drop then of production on Draugen due to the blackout that we had when we had a power turbine that tripped for us.

Svein J. Liknes
CEO | OKEA

We produced 33% gas or 1/3 of gas production last quarter, which then again constituted 54% of our revenues. Again, a good balance for OKEA in our production portfolio. High reliability on both assets. 97% and 99% is still high, but we're always aiming for the highest number, so we are learning from the incidents we had in the quarter to prevent them to recur. Safety and emissions is always a prerequisite to deliver on. I'm glad to see that the Total Recordable Injury Frequency, as you can see, is trending down. What you can see on the serious incident frequency is the one incident we had last year with the loose handrail, which was a potential incident.

Svein J. Liknes
CEO | OKEA

Nobody was hurt during that, but obviously it was a serious one, so that is also trending downwards. No hydrocarbon leaks during this quarter either. You see an increasing trend on the CO_2 emissions. This is a trend that will drop downwards as Yme production is ramping up, and it will definitely drop further down as we are electrifying Draugen. On Draugen, for the last quarter, we produced 6,877 barrels of oil equivalent per day net to OKEA. We did have the power outage that resulted in four to five days lost production during the quarter. We ramped up again, and we are now in stable operations. We also did the scale squeeze operation during the quarter, which will give us high reliability of these wells going forward.

Svein J. Liknes
CEO | OKEA

As I mentioned in the introduction, Draugen's activity is very much influenced by the Hasselmus project. Which is a gas tieback to Draugen. 4,400 gross barrels of oil equivalent of gas coming into Draugen in the fourth quarter of 2023. That is progressing in accordance with plan. We are also drilling the well there this summer, and project activities are ongoing both offshore and also onshore. In addition to that, we have the power from shore concept, which is very important for Draugen and also to reduce our emissions. In addition to Draugen, we are also doing this on behalf of the Njord asset. We are going through and planning to go through a final investment decision later on this year, and we are doing preparatory work offshore as we speak.

Svein J. Liknes
CEO | OKEA

Gjøa, again, a very important asset for us. Gives us the gas exposure we have. Even though it's only 12%, Gjøa is an important asset for OKEA, and I think the operator in Neptune is doing a very good job both operating and also developing Gjøa assets further. There was a planned shutdown on March 18th to April 8th due to the tie-in of new tiebacks to Gjøa. As I mentioned, deferred production will be replaced in kind when these assets or these fields are starting production. We also announced the Hamlet discovery together with the operator earlier this month. We are now working in the license to find a commercial development plan for this discovery to be tied back to Gjøa.

Svein J. Liknes
CEO | OKEA

Yme production of 1,345, which is mainly due to a slower ramp-up phase, as we had to restart or clean up wells directly to a shuttle tanker. We had to redo that plan. In addition, as I mentioned, we saw the minor oil leak during Easter, and we shut down production on Yme, identified the leak, and had our repair solution in place. Yesterday, a shuttle tanker was also reconnected to Yme, and the asset is just about to start the production again and will produce directly to the tanker while that leak is being fixed. Ivar Aasen, during the last quarter, we completed the transaction with Neptune, so we are now have a working interest of above 2.7% in Ivar Aasen.

Svein J. Liknes
CEO | OKEA

Ivar Aasen as well had an issue with power interruption from Edvard Grieg during or late in the quarter, which has influenced production. They are now currently ramping up and are expecting as well to be back in full production by the end of May. The operator has been working hard on that one and has solved the issue. It's an important asset for OKEA still. With that, I will hand over to Birte Norheim for the financial details of the quarter, and then I will come back afterwards with a summary before we then move into the Q&A session.

Birte Norheim
CFO | OKEA

Thank you, Svein. As you said, the first quarter of 2022 was another great quarter for OKEA. The high petroleum prices during the quarter resulted in the second-best top line in OKEA's history. However, due to a planned shutdown at Gjøa and Yme still being in the commissioning phase, volumes are lower than what we expect in the remaining quarters of the year. Produced volumes for the quarter amounted to 14,908 barrels of oil equivalent per day, which is a reduction of 1,130 compared to previous quarter. This was mainly driven by the planned shutdown at Gjøa, which started on March 18th and resulted in 12 days without production from Gjøa in the quarter. The majority of the shutdown scope related to tie-in projects for which Gjøa will be compensated for.

Birte Norheim
CFO | OKEA

Production on Draugen was also lower than previous quarter, largely due to a trip of power turbines when starting up the loading pump for offloading. However, the increased production on Yme partly offsets those effects. Sold volumes of 15,444 barrels of oil equivalent per day was 2,658 lower than last quarter, which is mainly due to no allocation from Ivar Aasen, combined with a shutdown on Gjøa. In addition to our own production, compensation volumes from Duva amounted to 765 barrels of oil equivalent per day for the quarter. The market prices for petroleum products have continued to increase since the low point in mid-2020, and prices for both gas and oil were relatively volatile at very high levels throughout the quarter and strongly influenced by the Russian invasion of Ukraine.

Birte Norheim
CFO | OKEA

The average realized price for natural gas was slightly up from previous quarter and amounted to $189.8 per barrel equivalent, which is nearly five times higher than last year. The average realized price for liquids was $89.6 per barrel, which is $11.6 per barrel higher than last quarter and nearly double compared to last year. This resulted in total petroleum revenue of NOK 1,506,000,000, a decrease of NOK 117 million compared to previous quarter and nearly three times higher than last year. As mentioned, liquids prices have steadily increased over the last year and a half, and the graph to the left illustrates the OKEA-allocated liftings of liquids over the last five quarters. In Q1, OKEA had six partial cargoes with crude lifted, with the majority of the volumes received in January.

Birte Norheim
CFO | OKEA

One from Draugen at 593,000 barrels, one from Gjøa at 165,000 barrels, and four smaller listings from Yme for a total of 91,000 barrels. We also illustrate the completed and some of the planned cargoes for the second quarter. The listings which have already been completed is marked in dark blue and includes 632,000 barrels from Draugen in April, two listings from Yme of 63,000 barrels and 18,000 barrels respectively, and a crude listing from Gjøa in the start of May of 8,000 barrels. Marked in light blue is an expected lifting of 68,000 barrels from Gjøa, expected in June. We also expect further crude listings from Yme in the second quarter, but we do not provide any further guidance on this due to the ongoing commissioning.

Birte Norheim
CFO | OKEA

The graph to the right outlines the difference between the average market price of Brent for the quarter of $102.1 per barrel, compared to the average realized liquids price for OKEA of $89.6 per barrel. The key difference relates to the timing effect, since the lifting on both Yme and the lifting from Draugen was completed in January and prior to the price hike at the end of the quarter. European gas prices reached a new all-time high in early March after the Russian invasion of Ukraine. Gas was trading well above $400 per barrel equivalent for a few days, but came down to $200 per barrel equivalent towards the end of the quarter.

Birte Norheim
CFO | OKEA

The graph illustrates the average volumes of gas sold per month since January last year, and the monthly average market prices in the same period. The first quarter represents another strong financial quarter for OKEA, with total operating income of NOK 1.5 billion, EBITDA in excess of NOK 1.1 billion, and a net profit after tax of NOK 213 million. The total operating income of NOK 1,513,000,000 mainly consists of the petroleum revenue of NOK 1,516,000,000, and also includes a net loss on hedging positions of NOK 32 million. The recognized hedging loss comes despite a gain on the settlements made in the first quarter, as it offsets the unrealized gain of NOK 52 million recognized in the fourth quarter. Production expense totals to NOK 287 million, or $192 per barrel.

Birte Norheim
CFO | OKEA

That compares to NOK 171 per barrel in the previous quarter. Bearing in mind that the Q1 is the first quarter with three months production expense from Yme, and the increase in cost per barrel is due to the lower volumes from Yme and Gjøa in the quarter. Following the significant increase in forward prices for oil in the quarter, we are reversing the previous impairment charge of the Yme asset in full in the first quarter. This has a positive effect on impairment of NOK 363 million, which is partly offset by a tax expense of NOK 283 million, which results in a net addition to the P&L of NOK 80 million.

Birte Norheim
CFO | OKEA

Exploration and operating expense of NOK 115 million consists of NOK 23 million in SG&A costs and NOK 93 million in exploration expense, which mainly relates to cost for the dry exploration well, Ginny. Net financial expenses amounted to NOK 61 million and mainly consist of interest expense. The tax expense amounted to NOK 1,074,000,000, which brings the net profit for the quarter to NOK 213 million. As for the balance sheet, goodwill increased by NOK 36 million due to the acquisition of the additional working interest in Ivar Aasen, which was executed on March 31st. The cash balance improved by NOK 431 million in the quarter and ended at NOK 2,470,000,000. In addition, NOK 209 million was placed in low-risk investments, which brings the total liquidity to nearly NOK 2.7 billion.

Birte Norheim
CFO | OKEA

Tax payable was NOK 1,364,000,000 and relates to the remaining tax due for 2021 and accrued tax payable for the first quarter of 2022. Interest-bearing loans and bonds amounted to NOK 2,001,000,000, and the reduction from previous quarter was due to the buyback of OKEA02 for a nominal amount of $31.5 million. Other interest-bearing liabilities of NOK 480 million represents the net present value of our future obligations under the bareboat charter for the Inspirer rig at the Yme field. Total asset retirement obligations of NOK 4 billion is partly offset by the asset retirement receivable from Shell of NOK 2.8 billion. The reduction in both amounts was due to an increase in the discount rates used to estimate the net present values following a general increase in interest rates.

Birte Norheim
CFO | OKEA

In Q1, OKEA generated a strong net cash flow of NOK 430 million in addition to the cash spent on the buyback of OKEA02 bonds of NOK 289 million, which represents a cash generation of about NOK 7 per share for the quarter. Total liquidity and this ended just shy of NOK 2.7 billion. Cash flows from operations was a solid NOK 1,266,000,000, mainly due to high realized prices and stable cost levels. Taxes paid of NOK 194 million relates to the fourth of six installments payable for the tax year of 2021.

Birte Norheim
CFO | OKEA

Cash used in investment activities was NOK 285 million, which includes NOK 106 million in exploration activities, mainly relating to Ginny and Hamlet, and NOK 46 million in net cash paid to Neptune relating to the Ivar Aasen acquisition. Finally, NOK 133 million used in other investment activities. Interest payment of NOK 29 million relates to the quarterly payment of interest on the OKEA02 bond. Production guiding for 2022 remains at 18,500 barrels-20,000 barrels per day. However, there is still uncertainty related to the volumes from Yme in particular, which could lead to a later revision in the guiding. In addition to own produced volumes, we expect 900 barrels-1,200 barrels per day as in-kind compensation volumes from Duva and Nova, which additionally will increase our sales and cash flow.

Birte Norheim
CFO | OKEA

CapEx guiding for 2022 is set to a range between NOK 950 million and NOK 1,150 million, and excludes capitalized interest. As a final note, and for our current shareholders, you should by now have received an invitation to our AGM on May 12th, which will be held as a digital meeting. Information about the meeting, the procedure, and the agenda is also available on our webpage. As we are now in a position to pay dividends, the board is requesting from the general meeting an authorization to approve distribution of dividends based on the annual accounts for 2021. We intend to revert with a dividend plan during second quarter. That's all for me for now, and I'll give the word back to Svein for some closing remarks. Thank you.

Svein J. Liknes
CEO | OKEA

Thank you, Birte. Before we go to the Q&A session, I will try to sum it up. Q1 2022, again, a very strong quarter for OKEA. We are growing production. We are keeping our guidance, as we have announced previously, and we are growing the production in a very strong market. We have a very strong cash position, which also enables us to deliver on our growth strategy. We are having high quality deliveries in our projects and also in our operations. With that, we will then move into the Q&A session, and you can now the lines will be open for questions, and you will also be able to pose the written questions if you use the link on our webpage.

Svein J. Liknes
CEO | OKEA

With that, I will end this with the final slide that shows our three strategic pillars, which is growth. We want to grow, have to drive value creation, and we want to show capital discipline while we are doing so. With that, I will hand over to the moderator, who will then take the questions, and we will be ready to answer the questions you may have.

Q&A

Operator

Ladies and gentlemen, if you have a question for the speakers, please press five star on your telephone keypad. To withdraw your question, please press five star again. We will have a brief pause while questions are being registered. The first question is from the line of John Olaisen from ABG. Please go ahead. Your line will now be unmuted.

John Olaisen
Head of Research | ABG

Yeah. Good morning, everybody. I got a couple of questions on Yme. You say you expect to restart production early May, which I guess is good news that the leakage is identified and trying to fix. Could you tell us a little bit more about the leakage? What did you do to fix it? I also noticed that you're changing the production system in the beginning at least. Is that in order to fix the leakage issue? A little bit about this one, please.

Svein J. Liknes
CEO | OKEA

Yeah. Thank you, John. The leakage was a subsea leak in the caisson, which is connecting the platform to the subsea storage tank. There is quite a few pipes in there. Systematically pressure testing of these pipes had to be undertaken to actually identify the leak in addition to observing it with an ROV. The leak was detected last week. Once we then knew what the leak was, a shuttle tanker was ordered, [Bodø, and she arrived yesterday at the Yme field and connected up. The startup is actually happening today because now we can produce directly to the tanker without the leak going to sea. Then we will repair the leak.

Svein J. Liknes
CEO | OKEA

Obviously, it's a kind of awkward place to do this, but we do have a repair method, or the operator has a repair method where we actually just insert the straddle packer into this pipe. The time was mostly trying to identify where the leak actually came from in a very complex part of the caisson. Production is resuming actually today. That's good.

John Olaisen
Head of Research | ABG

Mm-hmm. Mm-hmm. Now how much extra cost will that incur both in OpEx for renting the oil tanker and I presume there are some other related costs to it. What would you expect the cost to fix the issue?

Svein J. Liknes
CEO | OKEA

No, we have not received the details.

John Olaisen
Head of Research | ABG

Some kind of indication.

Svein J. Liknes
CEO | OKEA

Sorry. We have not received details of that. The tanker will not stay there longer than it has to be. The repair is not a great undertaking. It's just that it's a bit awkward to get to it. I do not have the details of how much this will actually add in OpEx. The most important part for us was actually to identify where the leak was, and it is manageable. That is something we need to come back with the details on.

John Olaisen
Head of Research | ABG

Mm-hmm. Mm-hmm. No, that's good. Thank you. Thank you very much. Have a nice day. Thank you.

Operator

The next question is from the line of Teodor Nilsen from SB1 Markets. Please go ahead. Your line will now be unmuted.

Teodor Nilsen
Equity Research Analyst | SB1 Markets

Take my questions. Good morning, [Arne Bjørge]. Thanks for taking my questions. A couple of questions for me. First on Yme, as far as I understand, that will commence production today. Could you say something about the production level we should expect for Yme in Q2? Also, then maybe on the full year production guidance, of course, you indicated that there is some downside risk to that, depending on Yme performance and how much barrels per day are we talking about on that downside risk for the full year guidance. Second question just on dividends. Is it so that you intend to announce the dividend in Q2 or just confirm that you actually will pay dividend due in Q2?

Teodor Nilsen
Equity Research Analyst | SB1 Markets

My third question is just a technical one on the P&L tax rate of 83%. Could you just help me to understand why that is higher than 78%? I guess it's maybe related to some financial items. Thanks.

Svein J. Liknes
CEO | OKEA

Yeah. The last question there, Teodor, the third one, could you please repeat that?

Teodor Nilsen
Equity Research Analyst | SB1 Markets

Yes, sure. The last question was on the P&L tax rate of 83%. I just wonder if you could walk me through why that is higher than the nominal tax rate of 78%. I guess that's related to some financial items, but some more details there would be good. Thanks.

Svein J. Liknes
CEO | OKEA

I can cover the Yme question, and then Birte will cover the rest. The volume and the impact, obviously, as we have said, we will reiterate, and we are still using the same guidance as before. What this means is that we are just pushing the production profile towards the right. We do expect plateau production on Yme during the third quarter. That has always actually been the plan. That is due to new wells are being drilled as well and restarted. That's the situation on Yme.

Svein J. Liknes
CEO | OKEA

Until we do actually have the ramp up and the updated ramp up schedule from the operator, it's very hard to kind of quantify what these volumes will be. I need to wait with that because then it may be misleading. I need to get back to the volumes on a later stage. The most important part for us now was that the leak was actually identified, and there is no kind of deterioration of reserves or production profiles. It's just that we are skewing it a bit to the right. We expect the plateau production on Q3 this year as previously planned. On the dividend and the other parts, Birte.

Birte Norheim
CFO | OKEA

Yeah. The tax rate, it's you are pointing to the right explanation yourself, Teodor. It's relating to financial items and mainly due to the hedging loss, but also on interest that's charged through the P&L. I hope that outlines it. It's partly offset by the uplift, but this quarter, the effect of the interest and the hedge loss is exceeding that. As for dividend, I guess what we should say is that we intend to announce it in the second quarter. I think we should await until we announce that dividend plan with being more firm. As you may be aware also, we have obligation under our bond loans to offer the bond holders to buy back a similar amount of what we are paying as dividends.

Birte Norheim
CFO | OKEA

We need to assess the timing of that procedure as well. As you see, we are quite cash-heavy at the moment, and we do have an intention to pay dividends in 2022. Further details on that will be announced in the second quarter.

Teodor Nilsen
Equity Research Analyst | SB1 Markets

Okay. Thank you.

Operator

As a reminder, please press five star on telephone keypad to ask a question. We will have a brief pause while questions are being registered. As there are no further question in this call at this moment, I will now hand the word back to the speakers.

Birte Norheim
CFO | OKEA

Thank you. I see there's one question on the screen, and that is from [Gunnar Pettersen], who's asking, what is the reason for holding back on the dividend policy? This is something that we are, you know, we have all stated since October last year that we intend to announce a dividend plan during 2022, and we are now giving an update on that. The plan is now to do that in the second quarter. Obviously we have to assess this in relation to all other activities that we're undertaking, including the inorganic growth projects that we're looking at. We're not holding back, we're just giving you a more precise timing on when we intend to provide dividend policy.

Birte Norheim
CFO | OKEA

We get a question also from [Pål Holtedahl], who's asking, "Are you able to quantify the growth ambition in further details?" Reference is made to OKEA considers the near-term outlook as a good and solid basis for growth.

Svein J. Liknes
CEO | OKEA

Yeah. Obviously, the growth ambitions is still there. As we have announced previously, we believe that we are very good in operating mid to late life assets. Therefore, it's also quite clear that we are quite active looking for inorganic growth and in the M&A. Obviously, it's something that we cannot comment on which processes we are in. Both organic growth for us around our assets is very important, like the Hasselmus project and also the discovery in Gjøa now that we will also tie back to Gjøa, the organic growth there is important. We are quite forward leaning when it comes also to inorganic growth, but it's very hard for me to comment on the details there.

Svein J. Liknes
CEO | OKEA

All I can say is that it's definitely part of our growth strategy and on our agenda.

Birte Norheim
CFO | OKEA

As there are no more questions, I'd like to thank all participants for the interest. Please do not hesitate to get in touch directly with Svein or myself if you have any further follow-up questions. Thank you.